

Schools Energy Co-operative Ltd

ANNUAL GENERAL MEETING 15th October 2015

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The Schools' Energy Co-operative Limited
Chairman's Report - Period ending 31st March 2015

I am pleased to make my first report to members as Chair of The Schools' Energy Co-operative Limited (the "Co-op"). This report principally covers the period ending 31st March 2015 which was the period in which the Co-op was developed and launched and in which it built a solar photovoltaic system at its first school.

We will be holding our first AGM on 15th October 2015 which, insofar as it relates to the period ending 31st March 2015, will be a relatively straightforward affair as we will be covering the period in which we were formed and only the first few months of our trading activity. As such there will be ample opportunity to ask questions at the meeting and to discuss the Co-op's future plans and strategy, which are much more challenging in view of the Government's changes to Feed-in Tariffs (abbreviated to "FIT" in this report).

Progress to date

As a co-operative social enterprise our Co-op has multiple goals, the principal ones of which are: to build renewable energy generation, enabling members to mitigate climate change and tackle energy security; to support our schools financially and in their educational and sustainability work; to support sustainable development; and to provide an ethical and environmental investment on which an attractive return is paid to our members at the rate which is sufficient to attract and retain the capital we need.

Our initial aim was to build the Co-op to a scale of about 25 school solar arrays funded by a series of share offers. For the reasons described below this process is likely to be accelerated. The Co-op when launched intended to focus on working with schools which preferred to work with the community co-operative energy sector, rather than the commercial sector (often for reasons of trust and our values); and in some cases to work with local community energy groups which preferred to deliver renewable energy installations through our Co-op (with the long term support and the backing of Energy4All that it provides), rather than themselves undertaking the 20 year commitment that a standalone community energy enterprise entails.

However, the Co-op has been formed and commenced trading in a period of considerable regulatory change and I describe our response to this in more detail below

The Co-op made its first share offer on 5th August 2014 when it raised £150,000 under the SEIS in under two weeks. The funds from this offer, together with a loan of £50,000 from Pure Leapfrog, enabled the Co-op to construct at short notice a 150kWp solar array at Glenleigh Primary Academy in Bexhill, which is one of the largest primary school solar installations in the country. Unusually, about one third of the solar panels are each orientated east, south and west, which gives much more "usable generation" for the school than if the panels just faced south. This orientation increases generation at the beginning and end of the school day, and reduces it at the middle of the day compared to a south facing system. In its first month of operation the school used 75% less electricity than in the same month in the previous year, even though the school was two classes bigger. This installation has been a great success and is much photographed!

This installation has been successfully accredited with OFGEM and the SEIS certificates for the first issue have been issued to members. Trading – that is generation - has been in line with our expectations.

The Glenleigh panels generate more electricity than the school uses particularly in summer months. This exported electricity is sold to Co-operative Energy under its "user chooser" system, which enables its customers, and in particular our members, to agree to buy power which is generated at this school. If you wish to receive more information about this please contact us.

Following our first share issue we continued discussions with other interested schools. These took longer to conclude than we had anticipated. Then in December 2014 the Government announced that it intended to withdraw EIS from future share issues by co-ops such as ours, so we made our second share issue to raise £400,000 on 27th February 2015. At that stage we had agreed terms with seven schools to install solar

panels but had not obtained all the necessary grid consents or undertaken structural surveys (although we did not anticipate any difficulty with these).

In the Budget held on 18th March the Government deferred the introduction of the change to EIS relief and announced that at least six months' notice would be given of withdrawal of EIS relief from future share issues. This is a welcome development but announcing the change less than three weeks before the change was due to take effect was less than helpful – if more notice had been given the Co-op would have been able to obtain grid consents and undertake structural surveys before making the share offer.

Developments since the year end

Since the year end the Co-op has continued to seek to install panels at the seven schools it is working with, finalising contracts, obtaining grid consents and undertaking surveys. The Co-op has also commenced discussions with a number of other schools. Solar panel arrays have now been built at Courthouse, Oakwood and Ashlyns and the installation at Heron Park is imminent, all as anticipated in the share offer. Unfortunately for building structural reasons it has not been possible to build solar panels at King Offa or Iona schools as originally intended, which is particularly disappointing to the parents at those schools who had supported the project. We are seeing if a smaller project might be possible at each school. Also we have not as yet managed to conclude contracts with Hertfordshire County Council relating to the installation at Bridgewater school, but we are optimistic that that will still take place later this year. We have however agreed to install an 80kW solar pv system at Shenfield School which will replace the generation capacity we have been unable to install. Courthouse school has undertaken extensive fundraising which it has invested in the Co-op on the same basis as other members.

It has been taking longer than we anticipated both to install panels at the seven schools and to agree terms with additional schools, but that has been dramatically overtaken by events, described below.

EIS

The Co-op has received advance assurance from HMRC that shares issued by the Co-op qualify for EIS relief. It has applied for consent to issue the EIS certificates and that consent is expected to be received shortly.

Web site

Our web site is not as up to date as it should be, for which we apologise. We intend to update it after we have greater clarity on our future plans and the number of schools we are working with in time for the next share issue referred to below.

Interest

As indicated in the SEIS offer there will be no interest paid in respect of the period ending 31st March 2015. Also as indicated in the EIS share offer interest in respect of the current year, which is very much a year of development, will also be below the long term target return of 5%, and will be affected by it taking longer than we anticipated to build the systems at the first seven schools. I am pleased to report that we are on target to pay interest at the indicated rate of 5% once the development phase has concluded.

Payment to schools

No dividend will be paid to schools in respect of their electricity use this year; payments are intended to start in respect of the financial year next following the commissioning of a solar array at an individual school, but the anticipated increased rate of development may defer that by one year.

Board and management

The Co-op is run on a day to day basis by Rachael Hunter in conjunction with Energy4All. Rachael also project manages all the installations and monitors them. Energy4All prepares our accounts and undertakes the Co-op's secretarial work and increasingly will take over the monitoring and collection of FIT and the sale of electricity, once our pv systems are established. I take the lead on the development of new arrangements with schools, feasibility studies and contracting. I am also very grateful for the strategic support and advice given by our other directors, Alan Simpson, Richard Watson and Rod Edge, all of whom bring a wealth of knowledge on community energy matters.

Energy4All did not charge for its work in the financial year under review but has commenced charging from 1st April on the basis described in the EIS share offer. Rachael is paid for her work through the Energy4All charge; the other directors are acting as volunteers. At this stage in the Co-op's development travel expenses are quite high, as each actual and prospective installation requires a number of visits.

FIT changes

In July 2015 the government suddenly and unexpectedly proposed to withdraw the ability to pre-register or pre-accredit for solar pv installations – that is an ability to reserve the current FIT rate for a period of one year to enable a system to be funded, the necessary consents obtained (of which grid is the most difficult), structural surveys done and the system installed. Notwithstanding the considerable disruption, and increased risk, withdrawal of this ability will have on community energy projects for no obvious gain, and the universal criticism of the proposals made in the response to the Government's "consultation", the Government announced that that change would take effect from 1st October. So pre-registration and pre-accreditation cease to be available from that date.

Pre-registration is a comparatively straightforward process which is only available to community groups and is limited to solar pv systems of up to 50kW capacity. Pre-accreditation is more complex (it requires in particular an accepted grid offer and detailed designs), so would normally have lead time of at least two to three months.

Then, even more unexpectedly (since the Government until then had been encouraging the development of roof top solar, and in particular had been supportive of school arrays and community funded projects), the Government announced at the end of August that with effect from 1st January 2016 the FIT would probably cease for solar pv installed after that date, or at best be massively reduced by an amount that would not make it cost effective to install. Since only four months' notice was given of this change, and the grid takes up to three months to respond to a request for capacity, there is little scope for schools to benefit from this remaining notice period unless their development was at a very advanced stage.

This has led to a dual rush – first to install our current pre-registered systems and secondly to install our system at Shenfield School (without the protection of registration) before the 31st December cut off date.

It has also resulted in a large number of schools contacting the Co-op in the past month requesting that the Co-op installs solar panels at those schools and requesting the Co-op to pre-register those installations. Such pre-registration would give the Co-op a year to raise the funds required and to install (which is feasible), whereas there is not sufficient time to install such systems by 31st December. Sadly in many cases we are having to limit proposed installations to the pre-registration maximum of 50kW even though the school could take a much larger system. However, some solar renewable energy is better than none and the schools we work with are as keen to be as sustainable as the Government permits them to be.

We have been working also with the charity 10:10 which was in the midst of its Solar Schools project – under which it has been supporting schools to raise funds to build solar panels next year in the expectation of receiving a FIT, which is now unlikely to be available. A number of those schools have requested us to pre-register solar arrays so they can participate in the Co-op on the same basis as Courthouse School (another 10:10 Solar School), and invest the funds they raise in the Co-op, with the Co-op using its own funds to "top-up" any shortfall so that solar panels on the scale of the amount pre-registered can be installed. The Co-op is also working with two local authorities and a large number of academy schools based in East Anglia advised by PCH Associates, an innovative, dynamic and professional building consultancy which advises many academy schools and has dedicated considerable effort in advising its client schools on improving their sustainability.

In its consultation proposals the Government indicated that it might reintroduce a FIT for community energy projects, without giving any indication of when this might occur or what the rate will be. In the meantime the solar installation industry will suffer considerable harm from the loss of the FIT and will lose permanently a considerable amount of the expertise it has built up.

How or why the Government believes electricity generating infrastructure can be cost effectively planned and built in such unpredictable circumstances is beyond me.

Future Developments

At the time of writing the Co-op is in the process of pre-registering the proposed commissioning of solar panel arrays at more than 30 schools. Due to the rush of applications resulting from the removal of pre-registration we are unlikely to receive confirmation of successful pre-registration for some time. Some of the schools will possibly not prove structurally suitable and some will not be able to obtain a sufficient grid connection for the proposed array but we anticipate being able to install solar pv at most of them.

Once matters are a little clearer the Co-op will make a further share offer to fund the installation of successfully pre-registered feasible sites and it will also make arrangements to borrow further sums to fund this work, probably again from Pure Leapfrog. That share offer will also be intended to qualify for EIS relief. The Government has said that it will give at least six months' notice of any change to the EIS regulations affecting the Co-op. This will enable the Co-op to make its share offer, which we anticipate will be early in the New Year. At that stage it seems likely that it will be one of the last opportunities available to support schools by installing solar panels on them and receive EIS relief.

Reporting on the accounts

The Co-op's accounts for the year ending 31st March 2015 have not been audited and are not required to be. They have been prepared for us by the accounting team at Energy4All which is independent of the Board and reviewed and reported on by Melville & Co, Chartered Accountants. Going forward we propose that the accounts are reviewed and reported on by an external firm of accountants but that they are not audited. An audit would cost the Co-op approximately £1,000 more than having its accounts merely reviewed and reported on by external accountants and we do not consider the extra expense warranted, and it has not been budgeted for.

The Co-op is not required to have the external review of its accounts undertaken by qualified auditors for the 2016 financial year, as its turnover is likely to be below the threshold which makes this mandatory; but the Board consider it appropriate to incur this additional cost of skilled professional external review.

It is for the members to decide whether to have an audit or whether to have instead a review and report. Therefore one of the motions being proposed at the Annual General Meeting by the Board is that the Co-op disapply the obligation to appoint auditors pursuant to Section 84 of the Co-operative and Community Benefit Societies Act 2014 so that an audit of the accounts of the Co-op shall not take place for the year ending 31st March 2016, but instead those accounts will be reviewed and reported on in accordance with Section 85 of that Act.

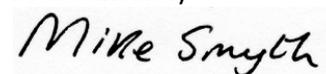
Each year one third of the directors retire at the annual general meeting – this year those directors being Alan Simpson (who was co-opted during the year) and Rachael Hunter. Further information about the directors is given in the document headed "Nominations to the Board". The number of directors proposed does not exceed the maximum number permitted so there will not be a "competitive" ballot. The Board supports the appointment of each of the directors proposed.

Conclusion

I am delighted to report that despite all the obstacles your Co-op is in robust health; its goals are being achieved; its financial position should be broadly as projected; and we have set an example as to how communities can make a material difference to the creation of renewable energy.

I look forward to meeting you and welcoming you to the AGM on 15th October.

Yours sincerely



Mike Smyth
Chair, The Schools' Energy Co-operative Limited

The Schools' Energy Co-operative Limited
Notice of Annual General Meeting to be held on
Thursday 15th October 2015

NOTICE is hereby given that the Annual General Meeting of members of the Co-operative will be held at 6 pm on Thursday 15th October 2015 at The Friends Meeting House, 173-177 Euston Rd, London NW1 2BJ for the following purposes:

AGENDA

1. Introductions and welcome.
2. **Motion 1:** to receive and adopt the Report of the Directors and the unaudited financial statements for the year ended 31st March 2015.
3. **Motion 2:** to disapply the obligation of the Co-operative to appoint auditors pursuant to Section 84 of the Co-operative and Community Benefit Societies Act 2014 so that an audit of the accounts of the Co-operative shall not take place for the Co-operative's year of account ending 31st March 2016.
4. **Motion 3:** to appoint the firm of Melville & Co, Chartered Accountants, as the appropriate person to make a report on the accounts and balance sheet of the Co-operative for the Co-operative's year of account ending 31st March 2016 at a fee to be agreed by the Board.
5. Election of directors:
Motion 4: to reappoint Rachael Hunter as director of the Co-op
Motion 5: to reappoint Alan Simpson as director of the Co-op
6. **Any other business**

Close of Formal Business

By order of the Board
Annette Heslop,
Company Secretary
28th September 2015

Registered Office:
Unit 26, Trinity Enterprise Centre
Furness Business Park
Barrow in Furness
LA14 2PN

Please refer to the email for instructions on voting.

Nominations to the Board

Rachael Hunter and Alan Simpson will retire by rotation and both will seek re-election. Since the number of directors will not exceed the maximum there will not be a competitive ballot. Therefore members are asked to re-elect Rachael Hunter and Alan Simpson to the Board.

Biographical Note

Retiring Directors Seeking re-election

Rachael Hunter MSc

Rachael lives in Godalming and is a director of and the day to day manager of Wey Valley Solar Schools Energy Co-operative. She also works for Wey Valley Wood Fuel on the development of new community renewable energy projects including Springbok Sustainable Wood Heat and Schools' Energy Co-op. Rachael previously worked for the Environment Agency as a biodiversity officer where she managed a number of projects concerning river bank restoration. Rachael will be the only paid member of staff and in conjunction with Energy4All will be the day-to-day manager of the Co-op

Alan Simpson

Alan is a founder member of the MOZES community energy co-op in Nottingham and of the (current) Iona solar school project. For 18 years he was the Member of Parliament for Nottingham South. Alan was the architect of Feed-in-Tariff amendments in the Energy Act 2008 and left parliament in 2010 to concentrate on energy and climate policy. He works as a writer, campaigner and advisor on transformation policies. Alan and his family live in an eco-house they converted in Nottingham where they are a net exporter of electricity to the Grid. His daughter attends Iona School, one of the schools participating in the Co-op.

Please refer to your email for instructions on Voting.